

Mrs. Earlene G. Jones, Administrator
Stroud Nursing Home
Post Office Box 216
Marietta, South Carolina 29661

Re: AC# 3-STD-F7 – Stroud Nursing Home

Dear Mrs. Jones:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period January 1, 1997 through June 30, 1997. That report was used to set the rate covering the contract periods beginning January 1, 1997.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA
State Auditor

EAVjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

STROUD NURSING HOME
MARIETTA, SOUTH CAROLINA

CONTRACT PERIODS
BEGINNING JANUARY 1, 1997
AC# 3-STD-F7

REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 14, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Stroud Nursing Home, for the contract periods beginning January 1, 1997 and for the six month cost report period ended June 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Stroud Nursing Home, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report and the Comments and Recommendations section of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Stroud Nursing Home dated as of December 30, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 14, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

STROUD NURSING HOME
Computation of Rate Change
For the Contract Periods
Beginning January 1, 1997
AC# 3-STD-F7

	01/01/97- <u>06/30/97</u>	07/01/97- <u>09/30/97</u>	10/01/97- <u>03/31/98</u>	04/01/98- <u>09/30/98</u>
Interim reimbursement rate (1)	\$86.30	\$89.85	\$95.47	\$98.94
Adjusted reimbursement rate	<u>84.03</u>	<u>87.54</u>	<u>93.17</u>	<u>96.65</u>
Decrease in reimbursement rate	\$ <u>2.27</u>	\$ <u>2.31</u>	\$ <u>2.30</u>	\$ <u>2.29</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997 as modified by letters from the Department of Health and Human Services letters dated April 22, and May 1, 1998.

STROUD NURSING HOME

Computation of Adjusted Reimbursement Rate
For the Contract Period January 1, 1997 Through June 30, 1997
AC# 3-STD-F7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$51.01	\$43.87	\$43.87
Dietary	<u>-</u>	<u>12.17</u>	<u>10.45</u>	<u>10.45</u>
Subtotal	\$ <u>-</u>	63.18	54.32	54.32
Laundry/Housekeeping/Maint.	\$ -	9.54	7.17	7.17
Administration & Med. Rec.	<u>-</u>	<u>8.52</u>	<u>7.82</u>	<u>7.82</u>
Subtotal	\$ <u>-</u>	81.24	\$ <u>69.31</u>	69.31
<u>Costs Not Subject to Standards:</u>				
Utilities		3.03		3.03
Special Services		-		-
Medical Supplies & Oxy.		5.53		5.53
Taxes and Insurance		.58		.58
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		\$ <u>90.38</u>		78.45
Inflation Factor (N/A)				-
Cost of Capital				6.75
Cost of Capital Limitation				(1.42)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For Gen. Serv. & Dietary				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$84.03</u>

STROUD NURSING HOME

Computation of Adjusted Reimbursement Rate
For the Contract Period July 1, 1997 Through September 30, 1997
AC# 3-STD-F7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$49.24	\$43.87	\$43.87
Dietary	<u>-</u>	<u>11.75</u>	<u>10.45</u>	<u>10.45</u>
Subtotal	\$ <u>-</u>	60.99	54.32	54.32
Laundry/Housekeeping/Maint.	\$ -	9.21	7.17	7.17
Administration & Med. Rec.	<u>-</u>	<u>8.23</u>	<u>7.82</u>	<u>7.82</u>
Subtotal	\$ <u>-</u>	78.43	\$ <u>69.31</u>	69.31
<u>Costs Not Subject to Standards:</u>				
Utilities		2.92		2.92
Special Services		-		-
Medical Supplies & Oxy.		5.34		5.34
Taxes and Insurance		.56		.56
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		\$ <u>87.25</u>		78.13
Inflation Factor (4.90%)				3.83
Cost of Capital				6.52
Cost of Capital Limitation				(1.19)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For Gen. Serv. & Dietary				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 \$ <u>87.54</u>

STROUD NURSING HOME
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1997 Through March 31, 1998
AC# 3-STD-F7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$49.24	\$47.70	
Dietary		11.75	10.55	
Laundry/Housekeeping/Maint.		<u>9.21</u>	<u>7.53</u>	
Subtotal	\$ -	70.20	65.78	\$65.78
Administration & Med. Rec.	<u>.02</u>	<u>9.04</u>	<u>9.06</u>	<u>9.04</u>
Subtotal	<u>\$.02</u>	79.24	<u>\$74.84</u>	74.82
<u>Costs Not Subject to Standards:</u>				
Utilities		2.92		2.92
Special Services		-		-
Medical Supplies & Oxy.		5.34		5.34
Taxes and Insurance		.56		.56
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$88.06</u>		83.64
Inflation Factor (4.40%)				3.68
Cost of Capital				6.73
Cost of Capital Limitation				(1.40)
Profit Incentive (Max. 3.5% of Allowable Cost)				.02
Cost Incentive - For Gen. Serv. & Dietary				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$93.17</u>

STROUD NURSING HOME

Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1998 Through September 30, 1998
AC# 3-STD-F7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$49.24	\$51.03	
Dietary		11.75	10.55	
Laundry/Housekeeping/Maint.		<u>9.21</u>	<u>7.53</u>	
Subtotal	\$ <u>-</u>	70.20	69.11	\$69.11
Administration & Med. Rec.	<u>.02</u>	<u>9.04</u>	<u>9.06</u>	<u>9.04</u>
Subtotal	\$ <u>.02</u>	79.24	<u>\$78.17</u>	78.15
<u>Costs Not Subject to Standards:</u>				
Utilities		2.92		2.92
Special Services		-		-
Medical Supplies & Oxy.		5.34		5.34
Taxes and Insurance		.56		.56
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$88.06</u>		86.97
Inflation Factor (4.40%)				3.83
Cost of Capital				6.73
Cost of Capital Limitation				(1.40)
Profit Incentive (Max. 3.5% of Allowable Cost)				.02
Cost Incentive - For Gen. Serv. & Dietary				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$96.65</u>

STROUD NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 1997
For the Contract Period January 1, 1997 Through June 30, 1997
AC# 3-STD-F7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$379,343	\$10,272 (4) 936 (4)	\$ 9,255 (1) 897 (1)	\$380,399
Dietary	107,820	2,666 (4)	2,464 (1) 17,273 (4)	90,749
Laundry	18,428	619 (4)	583 (1)	18,464
Housekeeping	26,631	845 (4)	725 (1)	26,751
Maintenance	28,941	524 (4)	568 (1) 2,978 (7)	25,919
Administration & Medical Records	69,611	1,411 (4)	1,306 (1) 700 (8) 3,572 (9) 1,876 (11)	63,568
Utilities	30,942	1,400 (2)	8,627 (3) 1,140 (5)	22,575
Special Services	-	-	-	-
Medical Supplies & Oxygen	41,227	-	-	41,227
Taxes & Insurance	12,934	-	130 (3) 8,472 (10)	4,332
Legal Fees	-	-	-	-

STROUD NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 1997
For the Contract Period January 1, 1997 Through June 30, 1997
AC# 3-STD-F7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	<u>50,529</u>	<u>207</u> (12)	<u>382</u> (6)	<u>50,354</u>
Subtotal	766,406	18,880	60,948	724,338
Ancillary	2,827	-	-	2,827
Non-Allowable	46,996	8,757 (3) 1,140 (5) 382 (6) 2,978 (7) 700 (8) 3,572 (9) 8,472 (10) <u>1,876</u> (11)	2,132 (1) 1,400 (2) 207 (12)	71,134
Total Operating Expenses	<u>\$816,229</u>	<u>\$46,757</u>	<u>\$64,687</u>	<u>\$798,299</u>
TOTAL PATIENT DAYS	<u>7,458</u>	<u>-</u>	<u>-</u>	<u>7,458</u>
TOTAL BEDS	<u>44</u>			

STROUD NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 1997
For the Contract Period July 1, 1997 Through September 30, 1997
AC# 3-STD-F7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$379,343	\$10,272 (4) 936 (4)	\$ 9,255 (1) 897 (1)	\$380,399
Dietary	107,820	2,666 (4)	2,464 (1) 17,273 (4)	90,749
Laundry	18,428	619 (4)	583 (1)	18,464
Housekeeping	26,631	845 (4)	725 (1)	26,751
Maintenance	28,941	524 (4)	568 (1) 2,978 (7)	25,919
Administration & Medical Records	69,611	1,411 (4)	1,306 (1) 700 (8) 3,572 (9) 1,876 (11)	63,568
Utilities	30,942	1,400 (2)	8,627 (3) 1,140 (5)	22,575
Special Services	-	-	-	-
Medical Supplies & Oxygen	41,227	-	-	41,227
Taxes & Insurance	12,934	-	130 (3) 8,472 (10)	4,332
Legal Fees	-	-	-	-

STROUD NURSING HOME

Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 1997
For the Contract Period July 1, 1997 Through September 30, 1997
AC# 3-STD-F7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	<u>50,529</u>	<u>207</u> (12)	<u>382</u> (6)	<u>50,354</u>
Subtotal	766,406	18,880	60,948	724,338
Ancillary	2,827	-	-	2,827
Non-Allowable	46,996	8,757 (3) 1,140 (5) 382 (6) 2,978 (7) 700 (8) 3,572 (9) 8,472 (10) <u>1,876</u> (11)	2,132 (1) 1,400 (2) 207 (12)	71,134
Total Operating Expenses	<u>\$816,229</u>	<u>\$46,757</u>	<u>\$64,687</u>	<u>\$798,299</u>
TOTAL PATIENT DAYS	<u>* 7,725</u>	<u>-</u>	<u>-</u>	<u>7,725</u>

*Adjusted to 97% occupancy

TOTAL BEDS 44

STROUD NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 1997
For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-STD-F7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$379,343	\$10,272 (4) 936 (4)	\$ 9,255 (1) 897 (1)	\$380,399
Dietary	107,820	2,666 (4)	2,464 (1) 17,273 (4)	90,749
Laundry	18,428	619 (4)	583 (1)	18,464
Housekeeping	26,631	845 (4)	725 (1)	26,751
Maintenance	28,941	524 (4)	568 (1) 2,978 (7)	25,919
Administration & Medical Records	75,896	1,411 (4)	1,306 (1) 700 (8) 3,572 (9) 1,876 (11)	69,853
Utilities	30,942	1,400 (2)	8,627 (3) 1,140 (5)	22,575
Special Services	-	-	-	-
Medical Supplies & Oxygen	41,227	-	-	41,227
Taxes & Insurance	12,934	-	130 (3) 8,472 (10)	4,332
Legal Fees	-	-	-	-

STROUD NURSING HOME

Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 1997
For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-STD-F7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	<u>52,131</u>	<u>208</u> (13)	<u>382</u> (6)	<u>51,957</u>
Subtotal	774,293	18,881	60,948	732,226
Ancillary	2,827	-	-	2,827
Non-Allowable	39,109	8,757 (3) 1,140 (5) 382 (6) 2,978 (7) 700 (8) 3,572 (9) 8,472 (10) <u>1,876</u> (11)	2,132 (1) 1,400 (2) 208 (13)	63,246
Total Operating Expenses	<u>\$816,229</u>	<u>\$46,758</u>	<u>\$64,688</u>	<u>\$798,299</u>
TOTAL PATIENT DAYS	<u>* 7,725</u>	<u>-</u>	<u>-</u>	<u>7,725</u>

*Adjusted to 97% occupancy

TOTAL BEDS 44

STROUD NURSING HOME
Adjustment Report
Cost Report Period Ended June 30, 1997
AC# 3-STD-F7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Retained Earnings	\$17,930	
	Nursing		\$ 9,255
	Restorative		897
	Dietary		2,464
	Laundry		583
	Housekeeping		725
	Maintenance		568
	Administration		1,306
	Nonallowable		2,132
	To properly charge salaries applicable to the prior period HIM-15-1, Section 2302.1		
2	Utilities	1,400	
	Nonallowable - Vending Machines		1,400
	To offset income against related expense HIM-15-1, Section 2328(C)		
3	Nonallowable - Residential	8,757	
	Utilities		8,627
	Licenses		130
	To remove direct residential care expenses from allowable cost HIM-15-1, Section 2102.3		
4	Nursing - Employee Benefits	10,272	
	Restorative - Employee Benefits	936	
	Dietary - Employee Benefits	2,666	
	Laundry - Employee Benefits	619	
	Housekeeping - Employee Benefits	845	
	Maintenance - Employee Benefits	524	
	Administration - Employee Benefits	1,411	
	Dietary		17,273
	To properly allocate employee meal cost HIM-15-1, Section 2144.4		
5	Nonallowable - Residential	1,140	
	Utilities		1,140
	To allocate garbage and pest control to residential care facility HIM-15-1, Section 2102.3		

STROUD NURSING HOME
Adjustment Report
Cost Report Period Ended June 30, 1997
AC# 3-STD-F7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Other Equity	13,740	
	Nonallowable	382	
	Fixed Assets		8,421
	Accumulated Depreciation		5,319
	Cost of Capital		382
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable	2,978	
	Maintenance		2,978
	To disallow maintenance expense not adequately documented HIM-15-1, Section 2304		
8	Nonallowable	700	
	Administration		700
	To disallow administration expense not adequately documented HIM-15-1, Section 2304		
9	Nonallowable	3,572	
	Administration		3,572
	To disallow insufficient funds fees HIM-15-1, Section 202.3		
10	Nonallowable	8,472	
	Taxes and Insurance		8,472
	To adjust insurance to allowable HIM-15-1, Section 2302.1		
11	Nonallowable	1,876	
	Administration		1,876
	To disallow expense not related to patient care HIM-15-1, Section 2102.3		

STROUD NURSING HOME
Adjustment Report
Cost Report Period Ended June 30, 1997
AC# 3-STD-F7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Cost of Capital Nonallowable	207	207
	To adjust cost of capital to allowable State Plan, Attachment 4.19D (For contract periods 1/01/97 - 9/30/97 only)		
13	Cost of Capital Nonallowable	208	208
	To adjust cost of capital to allowable State Plan, Attachment 4.19D (For contract periods 10/01/97 - 9/30/98 only)		
	TOTAL ADJUSTMENTS	<u>\$78,635</u>	<u>\$78,635</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

STROUD NURSING HOME
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended June 30, 1997
For the Contract Period January 1, 1997 Through June 30, 1997
AC# 3-STD-F7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>44</u>
Deemed Asset Value	1,406,812
Improvements Since 1981	343,673
Accumulated Depreciation at 6/30/97	<u>(594,141)</u>
Deemed Depreciated Value	1,156,344
Market Rate of Return	<u>0.070</u>
Total Annual Return	80,944
Number of Days in Period	<u>181/365</u>
Adjusted Annual Return	40,139
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	40,139
Depreciation Expense	10,669
Amortization Expense	-
Capital Related Income Offsets	(454)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	50,354
Total Patient Days (Actual)	<u>7,458</u>
Cost of Capital Per Diem	\$ <u><u>6.75</u></u>

STROUD NURSING HOME

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended June 30, 1997
For the Contract Period January 1, 1997 Through June 30, 1997
AC# 3-STD-F7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 1.34
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.33</u>
Reimbursable Cost of Capital Per Diem	\$ 5.33
Cost of Capital Per Diem	<u>6.75</u>
Cost of Capital Per Diem Limitation	\$ <u>(1.42)</u>

STROUD NURSING HOME
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended June 30, 1997
 For the Contract Period July 1, 1997 Through September 30, 1997
 AC# 3-STD-F7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>44</u>
Deemed Asset Value	1,406,812
Improvements Since 1981	343,673
Accumulated Depreciation at 6/30/97	<u>(594,141)</u>
Deemed Depreciated Value	1,156,344
Market Rate of Return	<u>0.070</u>
Total Annual Return	80,944
Number of Days in Period	<u>181/365</u>
Adjusted Annual Return	40,139
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	40,139
Depreciation Expense	10,669
Amortization Expense	-
Capital Related Income Offsets	(454)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	50,354
Total Patient Days (Minimum 97% Occupancy)	<u>7,725</u>
Cost of Capital Per Diem	\$ <u><u>6.52</u></u>

STROUD NURSING HOME

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended June 30, 1997
For the Contract Period July 1, 1997 Through September 30, 1997
AC# 3-STD-F7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 1.34
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.33</u>
Reimbursable Cost of Capital Per Diem	\$ 5.33
Cost of Capital Per Diem	<u>6.52</u>
Cost of Capital Per Diem Limitation	\$ <u>(1.19)</u>

STROUD NURSING HOME

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended June 30, 1997

For the Contract Periods October 1, 1997 Through September 30, 1998

AC# 3-STD-F7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1144</u>
Deemed Asset Value (Per Bed)	33,022
Number of Beds	<u>44</u>
Deemed Asset Value	1,452,968
Improvements Since 1981	343,673
Accumulated Depreciation at 6/30/97	<u>(594,141)</u>
Deemed Depreciated Value	1,202,500
Market Rate of Return	<u>0.070</u>
Total Annual Return	84,175
Number of Days in Period	<u>181/365</u>
Adjusted Annual Return	41,742
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	41,742
Depreciation Expense	10,669
Amortization Expense	-
Capital Related Income Offsets	(454)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	51,957
Total Patient Days (Minimum 97% Occupancy)	<u>7,725</u>
Cost of Capital Per Diem	\$ <u><u>6.73</u></u>

STROUD NURSING HOME

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended June 30, 1997

For the Contract Periods October 1, 1997 Through September 30, 1998

AC# 3-STD-F7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 1.34
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.33</u>
Reimbursable Cost of Capital Per Diem	\$ 5.33
Cost of Capital Per Diem	<u>6.73</u>
Cost of Capital Per Diem Limitation	\$ <u>(1.40)</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

I. Overdue Payments on Invoices

The provider was not paying invoices timely. The provider was turned over to a collection agency by Florence Nursing Services, Durr Medical Company and Neil Medical Group. HIM-15-1, Section 2305 requires that short term liabilities be liquidated within one year after the end of the cost report period in which the liability was incurred. Failure to pay invoices timely may cause costs to be inflated for reimbursement purposes.

We recommend that payments of invoices be made timely or unpaid expenses/late payments be reported in accordance with the provisions of HIM-15-1, Section 2305.

II. Mileage Log

The provider did not maintain a mileage log for administrative auto mileage. The State Plan, Attachment 4.19D states, "Allowable cost shall include administrative vehicle expense and regular vehicles expense used for patient care related activities only through documented business miles multiplied by the current mileage rate for the State of South Carolina Employees."

We recommend the provider document administrative mileage in compliance with the State Plan, Attachment 4.19D.

III. Time Studies/Residential Care Allocations

Time studies were not maintained to support the percentages used to allocate administrative and maintenance salaries to residential care. In addition, the provider did not maintain adequate allocation statistics to support the allocation of other shared and commingled costs, and no attempt was made by the provider to remove the indirect costs associated with the nonallowable services. HIM-15-1, Section 2304 states “Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries.” HIM-15-1, Section 2328 also requires the allocation of indirect costs to nonallowable cost centers. Failure to maintain the proper allocation bases and failure to determine the indirect costs associated with nonallowable services produces inflated costs for reimbursement purposes.

We recommend the provider maintain cost data and allocation statistics in accordance with HIM-15-1, Sections 2304 and 2328 in order to properly remove all direct and indirect costs associated with nonallowable services.